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SB 735
RELATING TO ENVIRONMENTAL RESPONSE

Senate Committee on
Ways and Means

Public Hearing - February 26, 1993
10:00 A.M., Room 501 Hemmeter Bldg.

By
John T. Harrison, Environmental Center
Alyssa Miller, East-West Center
Bruce Miller, Sea Grant
James Moncur, Economics
Peter Rappa, Sea Grant

SB 735 would impose a tax of 5 cents on each barrel of crude oil refined by distributors in Hawaii to be paid into the Environmental Response revolving fund.

Our statement on this bill does not constitute an institutional position of the University of Hawaii.

Our testimony on the earlier version of this measure expressed strong support for its intent. Our support remains strong, but we disagree with amendments to apply the tax at the pump. While we understand the concerns of the Department of Taxation that the original tax on imported crude oil and refined products would require a new tax structure within their department, we note that such a tax may be distributed evenly. A tax at the pump will primarily be borne by residents of the state, rather than being distributed fairly over various other sectors of the economy who we feel should carry their share of the tax burden.

Opinions of our reviewers differed on this measure. Most felt that the bill would serve to internalize previously unaccounted environmental costs of petroleum shipping and distribution, in that the cost would be added on to the prices paid by consumers, thereby making the energy economy more reflective of reality. In particular, since the tax would be imposed on crude oil, all refined products, and thereby all market sectors would be equally affected. Given the high preponderance of transportation and tourism-related energy sectors in Hawaii, ordinary residents would not bear an unreasonable share of the additional tax burden. In particular, to the degree that revenues are dedicated to enhancing and supporting emergency response government infrastructure, the bill would help the state meet federal Oil Pollution Act mandates to be prepared to function as trustee of its natural resources.

On the other hand, it was pointed out that the bill doesn't actually internalize costs as intended, since nothing in the measure directly affects the industry's incentive to avoid spills. Since costs are passed on to consumers, the behavior of individual distributors and sellers with regard to strategies and precautions undertaken in the face of operating risks is not likely to be altered. If anything, the economic principle of operating on a level playing field is violated in favor of the environmental interests.

While it is clear that theoretic economic principles may not favor this measure, it seems equally evident that the playing field has been far from level in terms of petroleum industry advantages for a considerable part of the fossil fuel era. The environment has a great deal of catching up to do if we are to remedy ongoing long term degradation. Consequently, the majority of our reviewers strongly support the intent of this measure.